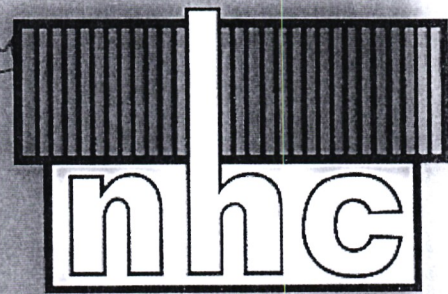


Library
186



NATIONAL HOUSING CORPORATION

Housing for the Nation

PARLIAMENT
OF KENYA
LIBRARY

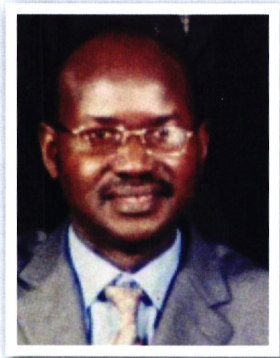
**ANNUAL ACCOUNTS
FOR THE YEAR ENDED
30th JUNE 2007**



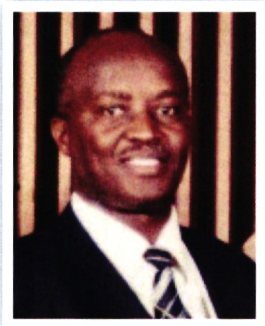
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Board Members



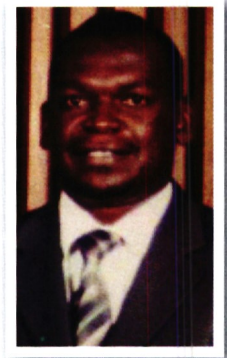
Mr. Bosire Ogero



Mr. James W. Ruitha



Mr. Karoli Ooko



Mr. Reginald Okumu



Mrs. Alice Mwololo



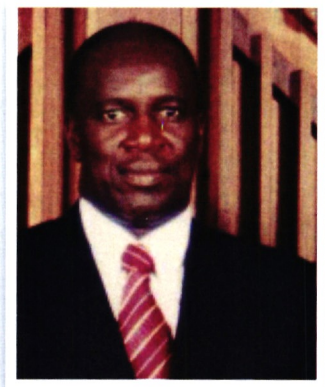
Mr. Muse Wanasakaami



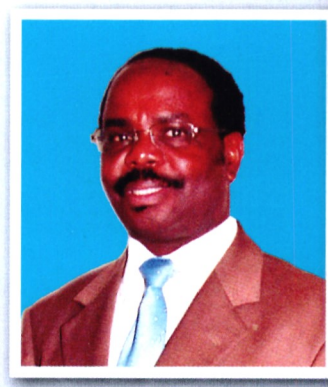
Mrs. Grace Wanyonyi



Mr. Wilson Maina



Mr. Victor Ogutu



Mr. Elias Murithi

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations Act, Cap 446, requires the Directors to prepare financial statements for each financial year, which include a balance sheet showing in detail the assets and liabilities of the Corporation, a statement of income and expenditure, and such other statements that the Directors may deem necessary. It also requires the Directors to ensure the Corporation keeps proper books of account and other books and records in relation to the Corporation and to all the undertakings, funds, investments activities and property of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice and in the manner required by the State Corporations Act, Cap 446. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Chairman: 

Managing Director: 

Date **17th SEPTEMBER 2007**

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of National Housing Corporation for the year ended 30 June 2007 set out on pages 2 to 18 which comprise the consolidated balance sheet as at 30 June 2007, the consolidated income statement, statement of changes in equity and cash flows for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Director' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the Corporation's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirement and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as audit provides a reasonable basis of my opinion.

Property, Plant and Equipment

Included in the property, plant and equipment balance of Kshs. 379,952,952 as at 30 June 2007 are two (2)

Property, Plant and Equipment

Included in the property, plant and equipment balance of Kshs. 379,952,952 as at 30 June 2007 are two (2) parcels of land NRBI/Block/62/216 measuring 0.35 hectares and another undeveloped land in Webuye town measuring 22 hectares valued at Kshs. 2,630,523 and Kshs. 4,787,260 respectively whose title documents were not produced for audit review. Further included in same balance is a motor vehicle with a book value of Ksh. 630,841 whose log book was not produced for audit verification. Although the management has indicated that the ownership documents are being pursued with the Commissioner of Lands and that a duplicate log book has been applied for from KRA, it was not possible to confirm the ownership status of these assets as at 30 June 2007.

Opinion

Except for the foregoing reservation, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June 2007 and of its profit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Housing Act, (Cap 117 of the Laws of Kenya)



P.N.KOMORA, C.B.S
CONTROLLER AND AUDITOR GENERAL

Nairobi

27th February 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2006/2007 Kshs.	2005/2006 Kshs.
INCOME			
TURNOVER	1	746,428,393	582,942,934
		746,428,393	582,942,934
OUTGO			
INTEREST EXPENSE	2	1,397,172	1,397,172
STAFF COSTS	3	309,620,863	239,734,227
OTHER OPERATING EXPENSES		245,329,969	189,107,831
		556,348,004	430,239,230
PROFIT BEFORE TAX	4	190,080,389	152,703,704
TAX	19	3,740,427	3,871,062
NET PROFIT		186,339,962	148,832,642
DIVIDENDS			
PROPOSED DIVIDENDS	5	27,950,995	22,324,896
RETAINED PROFITS		158,388,967	126,507,746
The Notes on Pages 9 to 18 form part of these Accounts.			

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

CAPITAL EMPLOYED		2006/2007	2005/2006
	Notes	Kshs	Kshs
EQUITY	6	5,320,000,000	4,819,318,523
TRDU PROJECT	7	38,071,308	24,002,736
UNREALISED PROFIT ON HSE SALE	8	170,955,789	
RETAINED PROFITS	9	77,779,618	371,375,187
		5,606,806,715	5,214,696,446
REPRESENTED BY			
NON CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	10	379,952,952	375,800,291
LONG TERM LOANS ADVANCED	11	1,928,665,576	1,290,101,671
INVESTMENT	12	45,200,000	43,445,336
GOVERNMENT SECURITIES	13	327,280,966	395,503,228
		2,681,099,494	2,104,850,526
CURRENT ASSETS			
HOUSING SCHEMES IN PROGRESS	14	550,317,557	749,927,687
LOAN AMOUNTS RECEIVABLE	15	2,493,162,986	2,547,569,899
CONSUMABLE STOCK	16	4,102,801	5,691,854
DEBTORS & PREPAYMENTS	17	173,901,046	143,596,155
CASH & CASH EQUIVALENTS	18	591,316,642	194,244,120
		3,812,801,032	3,641,029,715
TOTAL ASSETS		6,493,900,526	5,745,880,241
LIABILITIES			
TRADE & OTHER PAYABLES	19	847,651,690	490,035,809
PROPOSED DIVIDENDS	5	27,950,995	33,397,287
TAXATION	20	11,491,126	7,750,699
TOTAL LIABILITIES		887,093,811	531,183,795
NET ASSETS		5,606,806,715	5,214,696,446

CHAIRMAN..... 

DATE 17th September 2007

MANAGING DIRECTOR 

DATE 17th SEPTEMBER 2007

The notes on pages 9 to 18 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	2006/2007	2005/2006
	Ksh.	Ksh.
At Start of Year	5,214,696,446	5,114,273,536
Net Profit (Loss)	158,388,967	126,507,746
Investment in RDU	40,000,000	
Prior Year Adjustments	22,765,513	(26,084,836)
Unrealised gain on sale	170,955,789	
Long Term Loans Paid		
At Year End	5,606,806,715	5,214,696,446

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2006/2007 KSh	2005/2006 KSh
OPERATING ACTIVITIES			
Cash generated from operations	22	1,022,732,027	217,179,618
Net cash from operating activities		1,022,732,027	217,179,618
INVESTING ACTIVITIES			
Purchase of fixed assets	10	(22,927,918)	(271,968,877)
Loans advanced		(72,202,841)	(31,705,327)
Tenant purchase		(912,000,000)	(15,410,063)
Prior Year Adjustment on TP Repayment		-	(6,000)
Sale of fixed assets		2,608,323	
Retirement of Treasury Bonds		68,222,262	41,063,532
Investment in RDU		(1,754,664)	
Redemption of Long term loans		112,788,384	97,783,908
Repayment by Tenant Purchasers		233,004,236	86,002,724
Goodwill on acquisition of RDU			
Net cash from/ investing activities		(592,262,218)	(94,240,103)
FINANCING ACTIVITIES			
Dividends paid		(33,397,287)	-
Net cash used in financing activities		(33,397,287)	-
Decrease in cash and cash equivalents		397,072,522	122,939,515
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At start of the year		194,244,120	71,304,605
Effects of exchange rate changes on cash and cash equivalents			
At end of year	18	591,316,642	194,244,120

ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2007

The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous year except as stated below:

Adoption of new and revised international financial reporting standards

In 2005 several new and revised standards became effective for the first time and have been adopted by the Corporation where relevant to its operations. The adoption of these new and revised standards had no effect on the amounts reported for the current or prior year. This only resulted in changes in presentation and disclosure:

- IAS 16 has required the disclosure of comparative figures for movements in property and equipment
- IAS 24 has required the disclosure of the compensation of key management personnel.

a. BASIS OF PREPARATION

The financial statements are presented in Kenya Shillings (KShs.) and prepared under the historical cost convention, as modified by the carrying of certain investments at fair value.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b. PLANT, EQUIPMENT AND MOTOR VEHICLES

All items of plant, equipment and motor vehicles are recorded at cost less depreciation.

Depreciation is calculated on the reducing balance basis, at the following annual rates:

- | | |
|-----------------------------------|-------|
| - Computer System | - 30% |
| - Furniture, Fittings & Equipment | - 20% |
| - Motor Vehicles | - 25% |

Buildings are amortized and treated as loan charges in property and estates expense.

Gains and losses on disposal of motor vehicles are determined by reference to their carrying amounts and are taken into account in determining the operating profit.

ACCOUNTING POLICIES (Continued) **FOR THE YEAR ENDED 30 JUNE 2007**

c. OTHER INVESTMENTS

The Corporation has investments in securities issued by the Kenya Government. Any premium or discount is amortized through Profit & Loss Account, based on the life of the investment.

d. INVESTMENT INCOME

Investment income is stated net of investment expenses. Interest is recognized as income in the period in which it is earned.

e. TRANSLATION OF FOREIGN CURRENCIES

The transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates.

The differences arising from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

f. RETIREMENT BENEFIT OBLIGATIONS

The Corporation operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the Corporation and the employees.

The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Corporation's obligation under the scheme is limited to specific monthly contributions legislated from time to time and were fixed at KSh.200 per employee.

The Corporation's contribution to the defined contribution retirement benefit scheme and to the NSSF in respect of current service are charged to the profit and loss account in the year.

g. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short term, highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

h. STOCKS

Consumable stocks are valued at the lower of cost and net realizable value, on the basis of first in first out.

ACCOUNTING POLICIES (Continued) **FOR THE YEAR ENDED 30 JUNE 2007**

i. REVENUE RECOGNITION

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable. A provision for doubtful debts is made when collection of the full amount is no longer probable.

j. HOUSING SCHEMES IN PROGRESS

These refer to capital works in progress relating to housing projects under construction. Costs include construction costs to date and all direct and indirect expenses incurred in respect of a particular project.

The amounts are transferred to the appropriate property category either as tenant purchase or as rental schemes once the project is completed and closed.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1. TURNOVER

The sources of income are as stipulated below:

ITEM	2006/2007 Ksh.	2005/2006 Ksh.
Interest	413,738,936	372,989,608
Rents	131,074,925	111,969,596
Professional Fees	162,788,005	87,327,224
Gain on Sale of Houses	2,181,809	3,897,047
Profit/Loss on Sale of Trusses	27,418,267	(8,844,467)
Other Income	9,226,451	15,603,926
TOTAL	746,428,393	582,942,934

2. INTEREST EXPENSE

The interest expense is made up of:

	2006/2007 Ksh.	2005/2006 Ksh.
Bond Premiums Amortised	1,397,172	1,397,172
TOTAL	1,397,172	1,397,172

3. STAFF COSTS

Staff costs comprise the following:

	2006/2007 Ksh.	2005/2006 Ksh.
Retirement Benefit Costs	45,079,741	33,605,531
Salaries & Emoluments	264,541,122	206,128,696
TOTAL	309,620,863	239,734,227

The number of persons employed by the Corporation as at 30.06.2007 was 367 (as at 30.06.2006: 371).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

4. PROFIT BEFORE TAX

Profit before tax is stated after charging:

5. PROPOSED DIVIDENDS

In 2006/2007, a dividend of 15% equivalent to KSh. 27,950,995 has been proposed after offsetting losses of KSh. 3,024,857 made by RDU against NHC's profits of KSh. 189,364,821.

The shares have no par value.

ITEM	2006/2007 Ksh	2005/2006 Ksh
Depreciation	11,904,822	10,619,948
Directors Fees	11,264,876	10,043,653
Auditors Remuneration	760,000	754,750
TOTAL	23,929,698	21,418,351
Other Operating Expenses		
Post contract payments	26,005	
Property & Estates	68,380,452	36,675,321
Motor Vehicle Expenses	4,189,414	4,514,876
Repairs of Equipment	6,403,621	2,703,189
Travelling	6,301,426	5,723,932
Printing & Stationery	7,751,453	6,818,731
Office rents	24,154,669	12,288,815
Postage & Telephones	4,133,210	3,463,167
Advertising	1,163,462	4,295,719
Insurance	3,218,232	1,972,520
Bank Charges	1,029,822	997,306
Library Expenses	759,342	810,534
Staff Uniforms	348,275	1,182,945
Exhibition	844,047	183,590
Training	3,475,105	3,429,113
Bad Debts Provision- General	24,768,314	8,637,603
Debt Collection Expenses	2,316,108	2,251,938
Legal Charges	35,174,289	57,005,424
Staff Sports Club	319,368	669,768
Consultancy General	3,240,545	8,490,155
Direct Costs - RDU	18,259,029	-
Donations	222,120	338,230
Entertainment	4,921,963	5,236,604
TOTAL	221,400,271	167,689,480
TOTAL	245,329,969	189,107,831

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

6. EQUITY

The Corporation is formed under the Housing Act, Cap 117 and is fully owned by the Government of Kenya. The difference in GOK Equity in 2005/2006 is a result of accumulated losses set off against equity at the time of conversion of GOK loans to equity. This set off has been reversed in the year 2006/2007 and transferred from Retained earnings.

	2006/2007	2005/2006
	Ksh.	Ksh.
GOK Block Equity	5,320,000,000	4,819,318,523
TOTAL	5,320,000,000	4,819,318,523

7. RDU COMPANY LTD

The RDU project was handed over to the Corporation from GOK in March 2002 when the British Government had given the following grants, which formed part of RDU Co. Ltd equity.

	2006/2007	2005/2006
	Ksh	Ksh
DFID Grant	8,091,308	8,091,308
DFID Project Grant	29,980,000	29,980,000
DFID Grant adjustments	-	14,068,572
TOTAL	38,071,308	24,002,736

8. UNREALISED GAIN ON SALE OF HOUSES

This is the gain on sale of Tenant Purchase schemes, which will be realized over the life of the Tenant Purchase loans. The Corporation in the year 2006/2007 sold Langata I and Pumwani II.

9. RETAINED PROFITS

The make up of this is as follows:

	2006/2007	2005/2006
	Ksh.	Ksh.
Bal b/d	371,375,187	270,952,277
Prior Year Adjustments	22,765,507	(26,084,836)
Proposed Dividends	(27,950,995)	(22,324,896)
Profit / (Loss)	186,339,962	148,832,642
Transfer to Equity	(500,681,477)	
RDU Equity	40,000,000	
DFID grants adjustments	(14,068,572)	
TOTAL	77,779,612	371,375,187

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007
10. PROPERTY, PLANT & EQUIPMENT MOVEMENT SCHEDULE

	LAND & BUILDING	MOTOR VEHICLE	PLANT EQUIPMENT	FURNITURE & FITTING	COMPUTER SYSTEM	TOTAL AMOUNT
COST						
AT 1ST JULY 2005	114,703,000	44,173,632	27,051,471	27,145,558	43,646,575	256,720,236
Additions	261,454,497	3,152,052	1,112,020	1,630,054	4,620,254	271,968,877
Disposals/ Adjustments			(345,960)			(345,960)
AT 30th JUNE 2006	376,157,497	47,325,684	27,817,531	28,775,612	48,266,829	528,343,153
AT 1ST JULY 2006	376,157,497	47,325,684	27,817,531	28,775,612	48,266,829	528,343,153
Additions	250,000	11,142,747	6,334,112	1,090,965	4,110,094	22,927,918
Disposals/ Adjustments	(747,000)	(5,014,902)	(24,100)			(5,786,002)
AT 30th JUNE 2007	375,660,497	53,453,529	34,127,543	29,866,577	52,376,923	545,485,069
DEPRECIATION						
At 1st July 2005	41,902,603	28,141,295	17,168,943	20,696,446	31,539,573	139,448,860
Charge for the Year		3,647,739	1,568,529	1,359,095	4,044,585	10,619,948
Amortisation - Buildings	2,554,179					2,554,179
On Disposal			(80,125)			(80,125)
AT 30th JUNE 2006	44,456,782	31,789,034	18,657,347	22,055,541	35,584,158	152,542,862
At 1st July 2006	44,456,782	31,789,034	18,657,347	22,055,541	35,584,158	152,542,862
Charge for the Year		4,307,692	2,079,545	1,401,646	4,115,939	11,904,822
Amortisation - Buildings	5,149,258					5,149,258
On Disposal	-	(4,048,892)	(15,933)	-	-	(4,064,825)
AT 30th JUNE 2007	49,606,040	32,047,834	20,720,959	23,457,187	39,700,097	165,532,117
NET BOOK VALUE						
At 30th June 2006	331,700,715	15,536,650	9,160,184	6,720,071	12,682,671	375,800,291
At 30th June 2007	326,054,457	21,405,695	13,406,584	6,409,390	12,676,826	379,952,952

Amortization on Buildings is treated as loan charges under Property and Estates in the Profit and Loss. An amount of KShs.5,149,258 has been charged to Profit & Loss.

Depreciation on other fixed asset items at KSh.11,904,822 has also been charged in the Profit and Loss Account.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

11. LONG TERM LOANS

These include loans to Councils, Rural Housing Loans, Car Loans and Tenant Purchase Loans.

	2006/2007	2005/2006
	Ksh.	Ksh.
Local Authorities	573,014,885	662,349,674
Rural Housing Loans	5,607,161	363,110
Staff Loans	77,251,091	33,592,211
TOTAL	655,873,137	696,304,995
TENANT PURCHASE		
Schemes at Cost	2,349,061,597	1,437,061,597
Repayments	(1,076,269,158)	(843,264,921)
NET	1,272,792,439	593,796,676
TOTAL LOANS	1,928,665,576	1,290,101,671

Tenant Purchase Houses can be repossessed for reallocation in cases where purchasers default on the provisions of the Tenant Purchase agreement.

12. INVESTMENTS

These are investments held with;

	2006/2007	2005/2006
	Ksh.	Ksh.
CONSOLIDATED BANK OF KENYA		
4% Non-Cum Pref. Shares of Sh.20.00 each.	4,100,000	4,100,000
Ordinary Shares of Sh.20 each	1,100,000	1,100,000
RDU CO. LTD		
Ordinary Shares of Sh.20 each	40,000,000	
TOTAL	45,200,000	5,200,000

The shares in Consolidated Bank of Kenya are valued at cost. They arose following take-over of some troubled financial institutions by the Government. These institutions were Jimba Credit, Union Bank and Business Finance Ltd.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 30 JUNE 2007

13. GOVERNMENT SECURITIES

These are investments in Treasury Bonds with the following maturity profile at year end:

	2006/2007	2005/2006
	Ksh.	Ksh.
In 1 to 5 Years	9,786,904	76,349,640
In 5 to 10 Years	322,469,295	322,469,295
Discount on Maturities	(437,266)	(160,820)
Amortised Discount	817,234	803,142
Amortised premium	(5,355,201)	(3,958,029)
TOTAL	327,280,966	395,503,228

The discount and premiums on purchase of the securities has been written down to the Profit And Loss Account, based on the lifespan of a particular security.

14. HOUSING SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2006/2007	2005/2006
	Ksh.	Ksh.
Tenant Purchase	329,653,329	439,382,452
Mortgage	122,550,020	263,179,029
Other Projects	98,114,208	47,366,206
TOTAL	550,317,557	749,927,687

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

15. LOAN AMOUNTS RECEIVABLE

	2006/2007	2005/2006
	Ksh.	Ksh.
Rural Housing Loans		
Amounts Due	319,647,468	297,073,735
Repayments	(99,276,599)	(93,553,307)
Provision for Bad Debts	(43,164,681)	(40,669,171)
	177,206,188	162,851,257
Local Authorities	2,316,250,563	2,384,478,322
Staff Car Loans	(293,765)	240,320
Provision for Bad Debts car loans		
TOTAL	2,493,162,986	2,547,569,899

A general Provision for Bad debts is provided for Rural Housing Loans and Car Loans. Local Authority loans are secured on the properties.

16. CONSUMABLE STOCK

Stock has been valued at cost, and is made up of

	2006/2007	2005/2006
	Ksh	Ksh
Consumable Stores	2,635,130	3,427,245
Stock of Timber and other RDU Stores	1,158,892	1,695,176
W.I.P at TRDU	308,779	569,433
TOTAL	4,102,801	5,691,854

17. DEBTORS AND PREPAYMENTS

These are made up of:

	2006/2007	2005/2006
	Ksh.	Ksh.
Rent Arrears	97,567,278	84,056,726
Provision for bad debts on Rents	(22,272,804)	(6,024,594)
Sundry Debtors	98,606,572	103,809,359
TOTAL	173,901,046	181,841,491

A general provision on bad debts has been provided on rent arrears for Changanwe and Miscellaneous Estates at a rate of 5%. A specific provision was made in 2006/2007 for arrears owed by past tenants.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007**

18. CASH AND CASH EQUIVALENTS

For purposes of the cash flow statement, cash and cash equivalents represent cash and bank balances and investments in 91-day Treasury Bills. These were:

	2006/2007	2005/2006
	Ksh	Ksh
Bank	194,304,893	114,090,511
Treasury Bills	397,011,749	80,153,609
TOTAL	591,316,642	194,244,120

The average effective interest rate on Treasury Bills was 6.375% - 8.125% during the year.

19. TRADE AND OTHER PAYABLES

These comprise:

	2006/2007	2005/2006
	Ksh	Ksh
House Deposits	530,287,545	284,834,813
TP Service Charge	(23,841,721)	14,172,375
Contractors	153,865,706	41,272,712
10% Provision on Repairs	86,207,016	64,690,546
Sundry Creditors	101,133,144	85,065,363
TOTAL	847,651,690	490,035,809

House deposits are amounts received from prospective house purchasers in respect of the various housing schemes. The amounts are treated as creditors until allocation of the houses is done.

Tenant Purchase service charge are amounts accrued and payable by house tenant purchasers to cater for maintenance of common areas and insurance of properties against fire and perils.

The amounts due to contractors relate to amounts accrued in respect of the ongoing and completed housing projects.

An amount equivalent to 10% of collections from local authorities and rental schemes is kept aside for repairs and maintenance.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

20. TAXATION

Principal tax has been paid for the years 1992-1998 and final assessment is awaited from KRA. The Corporation took advantage of the Amnesty and paid the 1999-2004 tax liability and final confirmation is awaited from KRA. A provision of Ksh 3,740,427 has been made for the year 2006/2007.

21. RELATED PARTY TRANSACTIONS

(a) Staff Loans

The amounts outstanding (balances not due) on loans to officers of the Corporation are:

	2006/2007	2005/2006
	Ksh.	Ksh.
Tenant Purchase Loans	146,760,465	47,297,105
Car Loans	26,531,141	15,546,227
Bicycle Loans	104,458	102,233
Computer Loans	717,298	1,253,750
House loans	49,898,198	16,690,000
TOTAL	224,011,560	80,889,315

These loans have been advanced per the terms prescribed in the terms of employment and the Corporation Regulations.

(b) Directors Fees

The directors' Fees were KSh.11,264,876. (2005/2006: Sh.10,043,653.).

(c) Remuneration of Key Management

Included in the Staff Cost in Note 4 are the salaries and benefits of top management as follows:

	2006/2007	2005/2006
	Ksh	Ksh
Salaries & Benefits	15,474,349	13,731,635
TOTAL	15,474,349	13,731,635

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

22. CASH GENERATED FROM OPERATING ACTIVITIES

	2006/2007	2005/2006
	Shs.	Shs.
CASHFLOW GENERATED FROM OPERATIONS		
Net Profit (Loss) before Tax	190,080,389	152,703,704
Adjustments:		
For items not involving movement of cash		
Depreciation	11,904,822	10,619,948
Unrealised gain on sale of houses	170,955,789	
Amortisation of Fixed Assets	5,149,258	2,554,179
Bad Debts Provisions	24,768,314	8,637,603
Provision for Corporation Tax	(3,740,427)	(3,871,062)
(Gain)or loss on disposal of fixed assets	(887,146)	265,835
Adjustments of Fixed Assets	747,000	
Prior year adjustments	22,765,513	(26,084,836)
Adjustments on RDU grants		
Operating profit before working capital	421,743,512	144,825,371
Working capital adjustments:		
(Increase) in debtors & prepayments	(8,032,087)	(45,706,022)
Decrease (Increase) in stock	1,589,053	(766,408)
(Decrease) Increase in creditors	357,615,881	178,260,907
Increase in tax	3,740,427	3,879,637
Housing schemes in progress	199,610,130	(14,135,722)
Arrears on loan charges	51,911,403	(49,178,145)
Proposed Dividend	(5,446,292)	
Working capital changes	600,988,515	72,354,247
TOTAL CASH GENERATED	1,022,732,027	217,179,618

23. REDEMPTION OF LONG TERM LOANS

Long term loans include loans to Local Authorities, Rural Housing Loans and staff loans. See Note 11.

	2006/2007	2005/2006
	Ksh.	Ksh.
LONG TERM LOANS		
At Start	696,304,996	764,980,717
Advances	72,202,841	31,705,327
Repayments	(112,634,700)	(100,381,048)
TOTAL	655,873,137	696,304,996
TENANT PURCHASE		
At Start	593,796,675	664,405,204
Advances	912,000,000	15,410,063
Repayments	(233,004,236)	(86,018,592)
TOTAL	1,272,792,439	593,796,675
GRAND TOTAL	1,928,665,576	1,290,101,671

Notes.....

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